

VZCZCXRO8337
RR RUEHAG RUEHBZ RUEHDF RUEH DU RUEHGI RUEHIK RUEHJO RUEHLZ RUEHMA
RUEHMR RUEHPA RUEHRN RUEHROV RUEHTRO
DE RUEHLO #1176/01 1161640
ZNR UUUUU ZZH
R 251640Z APR 08
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC 8393
INFO RUEHZO/AFRICAN UNION COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHSS/OECD POSTS COLLECTIVE
RUEHMO/AMEMBASSY MOSCOW 2614

UNCLAS SECTION 01 OF 04 LONDON 001176

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [EAID](#) [EAGR](#) [PGOV](#) [UK](#)

SUBJECT: UK FOOD SUMMIT HIGHLIGHTS PM BROWN'S CONCERN

¶1. (SBU) Summary: At an April 22, PM Brown-hosted meeting to address increases in food prices, participants disagreed about future trends and the impact of biofuels, agreed that action needed to be taken both for immediate social protection and longer-term agricultural investment, and that care should be taken not to talk up a "crisis." The UK press release following the meeting included a broad range of proposed actions that the UK plans to pursue both domestically and internationally, ranging from increased assistance to a WTO trade deal and improved World Bank and IMF effectiveness. DFID also announced a new GBP 455 million (\$910 million) five-year assistance package. In DFID's view, the current crisis is being caused by high and rising food prices, not a shortage of food. End Summary.

¶2. (SBU) On April 22, PM Brown hosted a one and a half hour meeting to discuss ways the international community could respond to the growing global food price crisis. Overseas Development Institute (ODI) Director Simon Maxwell, who was called on to set the stage at the meeting, told us he was surprised that the meeting, which was originally intended to be a small private event, was publicized and expanded to include more international players. Participants included UK government ministers, international organizations such as Josette Sheeran from the World Food Program, business, academics and others. For the full list, see paragraph 16.

¶3. (SBU) PM Brown opened the meeting, introducing the list of action areas he had asked the Japanese Prime Minister to put on the G8 agenda, including short term measures to deal with immediate hardship and long term structural measures as outlined in paragraph 13. (see also www.number10.gov.uk/output/Page15321.asp). UK Development Secretary Douglas Alexander concluded the meeting by

SIPDIS

emphasizing the need for the international architecture to keep up. He noted that this had been a key theme at the World Bank Development Committee in Washington earlier in April. He also expressed surprise there had not been more discussion about concluding a WTO trade deal as a means to address food price concerns.

Food Prices and Biofuels

¶4. (SBU) Participants disagreed about likely food price trends and the impact of biofuels. UK Environment Secretary Hilary Benn noted that the futures market for wheat showed the price falling more than 25 percent from current levels by next year. Cargill's Ruth Rawling predicted that wheat prices would come down quite quickly, noting that there is a harvest somewhere on the planet every sixty days, except for

rice. ODI estimated that prices would fall back from their current peak to roughly what they had been in the early 1990s. (See ODI's discussion paper on the topic at <http://www.odi.org.uk/publications/briefing/bp37-april08-rising-food-prices.pdf>)

15. (SBU) On the other hand, Stefan Tangermann from the OECD Trade & Agriculture Directorate said their modeling showed maize prices for the next ten years would be 60 percent higher than during the past decade and that half of this increase was due to biofuels. Joachim Von Braun, Director General, Inter Food Policy Institute Research (IFPRI) suggested a moratorium on maize for biofuels. Their modeling showed it would reduce maize prices by 20 percent immediately and wheat prices by 10 percent, with further reductions because it would discourage speculation.

16. (SBU) Others defended biofuels. Benn wanted to see hard facts and analysis on biofuels. Mike Bushell, from agri-business company Syngenta, argued against demonizing biofuels. Rawling argued against rigid mandates and in favor of buy-out clauses for biofuels. She also noted that flexibility is essential since biofuel targets are fixed in terms of fuel markets not food markets, and 2.5 percent of the fuel market can represent as much as 20 percent of a food market.

Causes and Remedies

17. (SBU) Maxwell told us the headline messages about social protection in the short run and agricultural investment in the long run were clear to the participants, but everything else about causes and remedies was contested. Paul Collier, Oxford University, argued that the main cause was growth in China, which no one wants to reduce. He also pointed to "follies" that he wanted to undo, specifically U.S. biofuels subsidies, and the EU refusal to accept genetically modified

LONDON 00001176 002 OF 004

crops. Collier wanted to see large-scale farming in Africa along the lines of the Brazilian model. (For details, see Collier's April 15 article in the Times: Food Shortages: Think Big. www.timesonline.co.uk) On April 24, Malcolm Bruce, MP and chairman of Parliament's International Development Committee (IDC), speaking at an IDC evidence session dismissed Collier's suggestion that African countries adopt the Brazilian model as a "professorial point of view, not a politician's."

18. (SBU) At the meeting, Maxwell stressed that the crisis had macro-economic as well as humanitarian dimensions. Low Income Food Deficit countries face import bills some \$20bn higher this year, and food price increases are resulting in double-digit inflation in many countries. Donald Kaberuka, President, African Development Bank, also focused on macroeconomic impacts, as governments could respond to higher prices by increasing subsidies and wages, which would lead to higher budget deficits.

19. (SBU) Josette Sheeran, World Food Program (WFP) director, made a case for the importance of the humanitarian case load. She said the additional cost of maintaining WFP's operations this year has now risen to \$700 million, compared to \$500 million in February. (WFP has had to pay up to \$1000 per ton for rice). She raised concerns about low planting in poor countries, constrained in part by high input costs (e.g. planting in Kenya is one third down). She also said WFP is transitioning from being an agency that deals only with food aid logistics to one that addresses the broader causes and remedies to address hunger itself, a project which is slowly gathering donor support. Jacques Diouf, UN Food and Agriculture Organization, talked about the Food Summit he is convening from 3-5 June in Rome. He said the priority was the current growing season, and endorsed Sheeran's points about the negative impact of high fertilizer and seed prices.

¶10. (SBU) Several participants focused on the need for immediate social protection for those in need. Phil Bloomer from Oxfam argued against food subsidies for and in favor of targeted social protection for those in need. David Mephram from Save the Children talked about the need to scale up existing social protection programs (e.g Ethiopia), but noted that there are countries where the issue is building programs rather than scaling them up. Bruce was also concerned that small farmers would buy more inputs because food prices were high, and then be unable to cover these costs if prices fell. He wanted to see some kind of insurance to prevent this outcome.

¶11. (SBU) Kaberuka said the regional development banks were working on a harmonized approach to support agriculture. Speaking in a Parliamentary committee meeting on April 24, DFID Parliamentary Secretary of State Gillian Merron outlined DFID views on the African Development Bank's role to address the food crisis. She praised Kaberuka's participation in the summit, noting that it showed a willingness to adapt the AfDB's role to fit the situation. She stressed that the AfDB is not set up to lend directly to farmers, nor should it be, but there is the potential for AfDB to play a role in agricultural infrastructure projects. She said DFID would work with AfDB toward this goal.

Messaging

¶12. (SBU) Maxwell urged participants to get the messaging right, so as not to talk up a crisis, and instead present this as a manageable problem with short and long term solutions, with implications for the international system. Tanagerman endorsed the point about messaging and said there was a danger of talking up the bubble. He pointed to recent unhelpful remarks from IMF Managing Director, Dominique Strauss-Kahn, about prices going even higher.

UK Food Crisis Announcement

¶13. (U) A UK statement -- apparently not coordinated with the other participants -- following the meeting said it had addressed the short and longer-term factors causing increased food prices at home and abroad and possible policy solutions.

It noted the following issues were discussed at the meeting:
-- We will work in the G8 for an international strategy. An international strategy will need to include: more and better support for agricultural and rural development in the poorest countries; more and better research into methods for increasing yields and productivity; a review of the wider economic and environmental impacts of biofuel production;

LONDON 00001176 003 OF 004

commitment to increase social protection programs which take people out of long-term dependency on food aid; consideration on how to maximize the effectiveness of IMF and World Bank support; and reform of relevant international institutions.

-- We will increase support to the poorest. In addition to the GBP 50 million per year we already spend on social protection and safety net programs in Africa, the UK has today pledged an extra GBP 30 million to support the World Food Program, and extra GBP 25 million to Ethiopia for their national safety net program. We will work to encourage other donors to make additional humanitarian assistance available and monitor the need to step up support.

-- We will work together to address domestic price rises. The Government has called on consumer groups, food producers, manufacturers and retailers to consider how we can collectively meet the challenges posed by the global food crisis.

-- We will increase research into improving yields. The UK

has today announced new funds for agricultural research over the next five years. This will be critical if agricultural production is to keep pace with increased demands for food.

-- We will work to achieve a successful WTO deal, including a substantial 'aid for trade' package to help build the trading capacity of the poorest countries. The WTO round offers a major opportunity to increase trade flows in agricultural (and other) goods, particularly for developing countries. We want a WTO deal which significantly reduces agricultural tariffs and trade distorting subsidies. High transport costs also push up local food prices and restrict trade in Africa.

-- We will work within the EU to further reform the EU's Common Agricultural Policy (CAP), through the CAP Health check and the EU budget review. It is estimated that the CAP costs UK consumers GBP 3.5 billion (2005) through higher prices. Reductions in EU agricultural tariffs and CAP reform would reduce the cost of food to EU consumers and increase the capacity of developing countries to produce and export agricultural commodities.

-- We will review our approach to biofuels. We need to look closely at the impact on food prices and the environment of different production methods and to ensure we are more selective in our support. If our UK review shows that we need to change our approach, we will also push for change in EU biofuels targets.

DFID Assistance

¶14. (U) Also on April 22, DFID announced a GBP 455 million (\$910 million) five-year aid package to address rising global food prices. The package is designed to address both short term needs and long term solutions. The UK aid package includes: \$60 million in support of recent appeals by the World Food Programme for countries most at risk; \$800 million (GBP 400 million) over five years devoted to agricultural research, that will double DFID's current spend and help poor countries grow more food for themselves; and \$50 million (GBP 25 million) this year to boost the incomes of the poorest people in Ethiopia.

¶15. (U) In DFID's view, the current crisis is being caused by high and rising food prices, not a shortage of food. The solution is to improve access to food for poor people. Prices are rising because of increasing demand for food due to population growth, and increasing oil prices and their impact on the cost of food production, processing and distribution.

¶16. (U) Participants at the April 22 event were: Prime Minister Gordon Brown; Rt Hon Douglas Alexander MP, Secretary of State for International Development; Rt Hon Alistair Darling, Chancellor of the Exchequer, Rt Hon Hilary Benn MP, Secretary of State for Environment, Food and Rural Affairs;

SIPDIS

Rt Hon Malcolm Bruce MP, Chairman, International Development Committee; Prof John Beddington Chief Scientist; Phil Bloomer, Oxfam; Dr Mike Bushell, Syngenta; Paul Collier, Oxford University; Professor Ian Crute, Rothamsted Research Institute; Jacques Diouf, Food and Agricultural Organisation, UN; Andrew Dorward, School of Oriental and African Studies; Lawrence Haddad, Institute of Development Studies; Paul Hodson, European Commission Transport & Energy; Donald Kaberuka, African Development Bank; Reijo Kemppinen, Head of Mission, EC Rep of the UK; Peter Kendall, National Farmers Union; Justin King, Sainsbury's; Simon Maxwell, Overseas

LONDON 00001176 004 OF 004

Development Institute; Jill Johnstone, National Consumer Council; David Mephram, Save the Children; Kanayo Felix Nwanze, Vice President) IFAD; Ruth Rawling, Cargill plc; Josette Sheeran, World Food Program; Stefan Tangermann, OECD

Trade & Agriculture Directorate; Goran Trapp, Morgan Stanley;
and Joachim von Braun, Director General IFPRI Inter Food
Policy Institute Research.

¶17. (SBU) Comment: Brown's hastily arranged "summit" had no
other government leaders represented. It came at a time of
unremittingly bad political news for the PM and offered him a
chance to assert leadership on a widely supported
international issue.

Visit London's Classified Website:

http://www.intelink.sgov.gov/wiki/Portal:United_Kingdom

TUTTLE